

2000 Country Reports on Economic Policy and Trade Practices

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SWITZERLAND

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
<i>Income, Production and Employment:</i>			
Nominal GDP	262.7	259.3	238.8
Real GDP Growth (pct)	2.3	1.5	2.0
GDP by Sector			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government 2/	39.1	37.7	33.8
Per Capita GDP (US\$)	36,898	36,319	32,983
Labor Force (000s) 3/	3,230	3,258	N/A
Unemployment Rate - Average (pct)	3.9	2.7	2.2
<i>Money and Prices (annual percentage growth):</i>			
Money Supply (M3) 4/	1.2	1.4	-2.2
Consumer Price Inflation (pct)	0.0	0.8	1.2
Exchange Rate - Average (SFr/US\$)	1.45	1.5	1.7
<i>Balance of Payments and Trade:</i>			
Total Exports 5/	75.2	76.3	72.0
Exports to U.S. 5/	7.6	8.7	8.4
Total Imports 5/	73.7	75.6	73.5
Imports from U.S. 5/	4.7	4.6	5.1
Trade Balance 5/	1.5	0.7	-1.5
Balance with U.S. 5/	3	4.1	3.3
External Public Debt 6/	75.6	68.2	61.2
Fiscal Deficit/GDP (pct) 6/	-0.1	0.7	-0.5
Current Account Surplus/GDP (pct)	9.8	11.6	10.1
Debt Service Payments/GDP (pct) 6/	0.9	0.9	0.9
Gold and Foreign Exchange Reserves 7/	40.2	40.9	52.2
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ All 2000 figures are estimates.

2/ Including Social Welfare Expenditures; 2000 figure is an Embassy estimate based on figures available through June.

3/ Full-time equivalent employment.

4/ Percentage change July 1999-July 2000.

5/ Merchandise trade excluding gold and other precious metals, jewels, artworks, antiques; Source: Swiss Customs Administration; 2000 figures are Embassy estimates based on figures available through August.

6/ Federal government only (i.e. excluding cantons and communities).

7/ As of August 2000.

1. General Policy Framework

Switzerland has a highly developed, internationally oriented, and open market. The economy is characterized by a sophisticated manufacturing sector, a highly skilled workforce, and a large services sector (i.e., banking and insurance). Per capita GDP is virtually the highest in Europe while unemployment is practically the lowest.

When Swiss voters decided in December 1992 to reject the European Economic Area (EEA) Treaty, Switzerland found itself in the awkward position of being located in the heart of Europe, but not part of the EEA or a member of the EU. With some two-thirds of its exports going to Europe, the government pursues policies aimed at maintaining Switzerland's competitiveness in Europe while seeking to diversify its export markets. The Swiss parliament and a subsequent public referendum both approved the so-called bilateral agreements, which Switzerland concluded with the EU in December of 1998, which cover seven different sectors. Before the agreements can take effect they must first be ratified by all 15 EU member states which is expected by summer of 2001.

After strong economic growth during the eighties, the Swiss economy was western Europe's weakest between 1990-1996, with growth averaging around zero percent per year (unemployment, however, never rose above 5.5 percent). As a result of the economic stagnation, the country ran up large, unprecedented (for Switzerland) deficits, causing a corresponding accumulation of public debt. A public initiative that passed in 1998 essentially requires the federal budget to be balanced by 2001. The government is on track to achieve this, due to strict control of expenditures and higher tax receipts thanks to improved economic growth. GDP growth of 1.7 percent in 1999 is expected to improve to 3.2 percent in 2000 before falling back to around 2.4 percent in 2001.

No systematic use is made of fiscal policy to stimulate the economy. The Swiss National Bank (SNB) is independent from the Finance Ministry. The primary objective of the SNB's policy is price stability. Monetary policy is conducted through discount rate adjustments and open market operations.

2. Exchange Rate Policies

The Swiss franc is not pegged to any foreign currency. The SNB carefully watches for signs of upward pressure on the franc (the overvalued franc was partly to blame for the economic stagnation of the early/mid 1990s). The SNB has shown its willingness to follow an accommodating money supply policy, even to exceed its money supply growth targets when necessary, to minimize upward pressure on the franc.

3. Structural Policies

Few structural policies have a significant effect on U.S. exports. Two exceptions are telecommunications and agriculture. In 1998 a new law took effect that has brought liberalization and privatization to the Swiss telecommunications sector, opening the market to investment and competition from U.S. and other foreign firms. Since then, one U.S. firm (and its Swiss partner) has won one of the three licenses to provide cellular phone service. The same firm will also be building a large land network with fiber optic cabling. A significant number of U.S. firms are having success in the liberalized Swiss telecoms environment.

Agriculture is heavily regulated and supported by the federal government. Legislation that took effect January 1, 1999 is gradually reducing direct government intervention in the market to set prices, but the high level of direct support for Swiss agricultural production will continue. The goal of the 1999 legislation is to reduce government regulation of the market while maintaining agricultural production at current levels through import protection and direct payments linked to environmental protection.

In early 1996 a new Cartel Law came into effect, introducing the presumption that horizontal agreements setting prices, production volume, or territorial distribution diminish effective competition and are therefore unlawful. For years, Switzerland has had a heavily cartelized domestic economy. Over time, the effect of this law should be to improve competition generally in Switzerland. New draft legislation has been introduced in Parliament that would further strengthen competition laws by enhancing the impartiality of the government-appointed Competition Commission, and by allowing the government to punish firms for first offenses (currently punishment can only occur after a firm has received one warning).

As part of its Uruguay Round commitments, Switzerland enacted legislation in 1996 providing for nondiscrimination and national treatment in public procurement at the federal level. A separate law makes less extensive guarantees at the cantonal and community levels.

4. Debt Management Policies

As a net international creditor, debt management policies are not relevant to Switzerland.

5. Significant Barriers to U.S. Exports

Import Licenses: Import licenses for many agricultural products are subject to tariff-rate quotas and tied to an obligation for importers to take a certain percentage of domestic production. Tariffs remain quite high for most agricultural products that are also produced in Switzerland.

Services Barriers: The Swiss services sector features no significant barriers to U.S. exports. Foreign insurers wishing to do business in Switzerland are required to establish a subsidiary or a branch here. Foreign insurers may offer only those types of insurance for which they are licensed in their home countries. Until recently, the most serious barriers to U.S. exports existed in the area of telecommunications. However, with the privatization and liberalization that became effective in this sector in 1998, this market has been greatly opened to foreign competitors.

Standards, Testing, Labeling, and Certification: The government must approve all genetically modified organism products before they can be sold and consumed in Switzerland. In addition, all food products with a GMO content above one percent must be labeled as such. A new law took effect in January 2000, which stipulates that fresh meat and eggs from abroad that are produced in a manner not permitted in Switzerland must be clearly labeled as such. Methods not allowed in Switzerland include the use of hormones, antibiotics and other anti-microbial substances in the raising of beef and pork as well as the production of eggs from chickens kept in certain types of battery cages. The United States will be monitoring developments in this matter for indications of any adverse influence on U.S. agriculture sales in Switzerland.

Government Procurement Practices: On the federal level, Switzerland is a signatory of the WTO Agreement on Government Procurement and fully complies with WTO rules concerning public procurement. On the cantonal and local levels, a law passed by the parliament in 1995 provides for nondiscriminatory access to public procurement. The United States and Switzerland reached agreement in 1996 to expand the scope of public procurement access on a bilateral basis.

With the exception of certain restrictions on some agricultural items, the Swiss market is essentially open for the import of U.S. goods.

6. Export Subsidies Policies

Switzerland's only subsidized exports are in the agricultural sector, where exports of dairy products (primarily cheese) and processed food products (chocolate products, grain-based bakery products, etc.) benefit from state subsidies. Switzerland is gradually reducing the export subsidies as required under World Trade Organization (WTO) rules.

7. Protection of U.S. Intellectual Property

Switzerland has one of the best regimes in the world for the protection of intellectual property and protection is afforded equally to foreign and domestic rights holders. Switzerland is a member of all major international intellectual property rights conventions and was an active supporter of a strong IPR text on the GATT Uruguay Round negotiations. Enforcement is generally very good. Switzerland is a member of both the European Patent Convention and the Patent Cooperation Treaty (PCT). A new Copyright Law in 1993 improved a regime that was already quite good. The law explicitly recognizes computer software as a literary work and

establishes a remuneration scheme for private copying of audio and video works which distributes proceeds on the basis of national treatment.

Since May 1998, Switzerland has been in compliance with its obligation under TRIPS to protect company test data required by national authorities in order to obtain approval to market pharmaceuticals. The new regulation enacted by the Swiss Intercantonal Office for the Control of Medicines mandates a 10-year protection period for such data.

According to industry sources, software piracy continues to be a problem. This appears to be largely due to illegal copying by individuals and some small and medium-sized establishments. It is highly unlikely that there are any exports. Industry sources estimate lost sales due to software piracy at \$107 million in 1999. Trade losses and denied opportunities for sales and investment in all other IPR sectors are minor in comparison.

Switzerland is not on the U.S. "Special 301 Watch List" or "Priority Watch List". Neither is it identified as a "Priority Foreign Country".

8. *Worker Rights*

a. *The Right of Association:* All workers, including foreign workers, have freedom to associate freely, to join unions of their choice, and to select their own representatives.

b. *The Right to Organize and Bargain Collectively:* Swiss law gives workers the right to organize and bargain collectively and protects them from acts of antiunion discrimination. The right to strike is legally recognized, but a unique informal agreement between unions and employers has meant fewer than 10 strikes per year since 1975. There was a significant demonstration in February against Adtranz, a locomotive manufacturer, following a merger and the prospect of layoffs. During October there were work stoppages and demonstrations against a Basel public service firm over low wages offered following privatization.

c. *Prohibition of Forced or Compulsory Labor:* There is no forced or compulsory labor, although there is no legal prohibition of it.

d. *Minimum Age for Employment of Children:* The minimum age for employment of children is 15 years. Children over 13 may be employed in light duties for not more than 9 hours a week during the school year and 15 hours otherwise. Employment between ages 15 and 20 is strictly regulated.

e. *Acceptable Conditions of Work:* There is no national minimum wage. Industrial wages are negotiated during the collective bargaining process. Such wage agreements are also widely observed by non-union establishments. The Labor Act establishes a maximum 45-hour workweek for blue and white collar workers in industry, services, and retail trades, and a 50-hour workweek for all other workers. The law prescribes a rest period during the workweek. Overtime is limited by law to 260 hours annually for these working 45 hours per week and to 220 hours annually for those working 50 hours per week.

The Labor Act and the Federal Code of Obligations contain extensive regulations to protect worker health and safety. The regulations are rigorously enforced by the Federal Office of Industry, Trades, and Labor. There were no allegations of worker rights abuses from domestic or foreign sources.

f. *Rights in Sectors with U.S. Investments:* Except for special situations (e.g. employment in dangerous activities regulated for occupational, health and safety or environmental reasons), legislation concerning workers rights does not distinguish among workers by sector, by nationality, by employer, or in any other manner which would result in different treatment of workers employed by U.S. firms from those employed by Swiss or other foreign firms.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category	Amount
Petroleum	271
Total Manufacturing	5,702
Food & Kindred Products	(1)
Chemicals & Allied Products	3,051
Primary & Fabricated Metals	178
Industrial Machinery and Equipment	480
Electric & Electronic Equipment	754
Transportation Equipment	(1)
Other Manufacturing	769
Wholesale Trade	14,289
Banking	2,844
Finance/Insurance/Real Estate	25,684
Services	1,865
Other Industries	571
TOTAL ALL INDUSTRIES	51,227

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.